



**EURASIA COMPETITIVENESS PROGRAMME  
CENTRAL ASIA INITIATIVE**

**“PROMOTING INVESTMENT IN TIMES OF ECONOMIC  
CRISIS AND BEYOND”**

**MEETING SUMMARY**

**PRELIMINARY MEETING OF THE WORKING GROUP ON  
INVESTMENT CLIMATE, POLICY AND PROMOTION**

**MEETING CO-CHAIRLED BY THE MINISTRY FOR ECONOMICS AND TECHNOLOGY  
OF THE FEDERAL REPUBLIC OF GERMANY**

**THURSDAY, 17 SEPTEMBER 2009**

**ASTANA, KAZAKHSTAN**

**PRIVATE SECTOR DEVELOPMENT**

## I. Executive Summary

The [Central Asia Initiative](#) of the [OECD Eurasia Competitiveness Programme](#) and governments and private sector representatives from the region met in Astana, Kazakhstan, on 17 September 2009 for a preliminary meeting of the Working Group on Investment Climate Policy and Promotion. The meeting was held as part of an International OECD Conference on 'Creating Conditions for Sustainable Economic Development', hosted by the Republic of Kazakhstan and opened by H.E. the President Mr. Nursultan Nazarbayev.

The objective of the meeting was to initiate dialogue on investment climate policy and promotion, specifically focusing on:

- Investment policies in times of economic crisis and the OECD's strategic response to the crisis;
- The impact of the crisis on the countries of Central Asia (CA) and their government policy responses; and,
- Business integrity and investments: Promoting responsible business conduct and corporate social responsibility for a better investment climate by using OECD tools and instruments, such as the OECD Guidelines for Multinational Enterprises.

The meeting welcomed international organisations and development agencies such as OSCE, GTZ and KfW Development Bank as well as experts from governments and the private sector, OECD countries and the OECD Secretariat. It was co-chaired by Mr. Joachim Steffens, Representative of Germany to the OECD Investment Committee and Head of Unit for Investment and Debt Rescheduling in the German Ministry for Economics and Technology.

The forum provided an excellent opportunity to discuss and share experience on economic challenges in the countries of Central Asia and on policies to improve the business climate and attract better Foreign Direct Investment. Mr. Anthony O'Sullivan, Head of OECD Private Sector Development Division, presented in his key note speech protectionist risks and OECD policy recommendations in the context of the current global economic crisis. He analysed the effect of the crisis on cross-border investment and illustrated characteristics of similar crisis in the past. By comparing the development of investment flows with international investment during and after the Great Depression, the South-East Asian crisis and the Argentinean crisis he pointed out that crisis situations should also be seen as an opportunity to introduce better policies for employment and growth. In cases where governments refrained from introducing protectionist policies but stood committed to open and transparent investment regimes the long-term impact of the crisis was less severe and a return to former growth rates could be achieved faster.

Mr. Joachim Steffens, Co-chair of the Initiative complemented this picture by giving an overview of OECD Investment Policy Tools and Instruments such as the Policy Framework for Investment and the OECD Declaration on International Investment and Multilateral Enterprises which is a political

agreement among adhering countries for co-operation on a wide range of investment issues. It contains four related elements: the National Treatment instrument, the Guidelines for Multinational Enterprises, an instrument on incentives and disincentives to international investment, and an instrument on conflicting requirements. OECD members and adhering countries are committed to these instruments to ensure sound investment policies to foster investment, employment and competitiveness – in times of economic crisis and beyond.

These introductory presentations were complemented by an overview on the programme structure, approach and FDI trends in the Central Asia given by Mr. Fadi Farra, Head of the OECD Eurasia Competitiveness Programme and Mr. Daniel Quadbeck, Policy Analyst which led to a fruitful discussion on challenges, country priorities and strategies to improve the investment climate both from the perspective of policy makers and the private sector. Representatives from Central Asia stated their keen interest to work together with OECD to improve investment conditions and make the region more competitive.

All countries of the region face similar challenges in the light of the current crisis. Increased risk aversion of foreign investors and a shortage of liquidity led to a reduction of financial and investment inflows after a period of constant growth. Furthermore, a drop in global demand and prices for export commodities as well as decreasing remittances caused a decline in production, employment and income levels in most countries of the region.

The OECD is poised to support Central Asian governments to help create a sound business climate for investment, enhance productivity, support entrepreneurship, develop the private sector, and build knowledge-based economies to render the region more competitive and attractive to foreign investment (see figure 1). To achieve these objectives, the initiative will encourage the exchange of best practices and experiences in policy reforms relevant to improving the business climate, support regional dialogue, and assist governments in developing policies that build a dynamic business environment for local businesses and foreign investors.

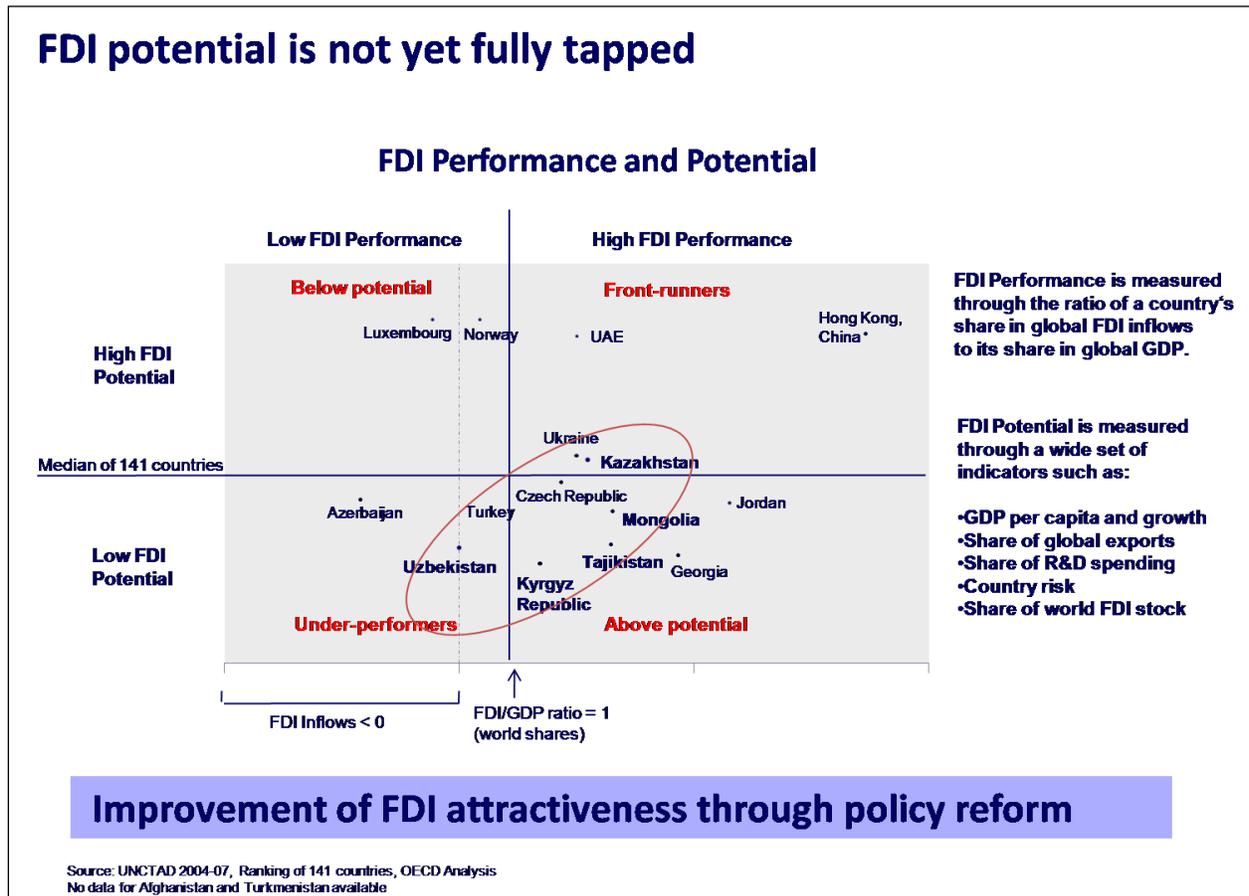
Common themes that were mentioned by government and private sector representatives throughout the Working Group meeting were: (i) the introduction of better investment policies (which would be supported by the OECD Secretariat through a thorough assessment on national treatment regulations and FDI restrictiveness); (ii) the development of tools and strategies for effective Investment Promotion (which would include the development of guidelines for a proper institutional set-up and mandate of a country's Investment Promotion Agency); (iii) the development of an Investment Promotion Strategy on where and how to compete and how to move up the value chain for better employment and growth; (iv) Free Economic Zones management; and, (v) putting an overall focus on policies to support SME growth.

Most countries of the region are intending to set-up Free Economic Zones as a way to develop export-led industries and attract FDI into economic enclaves within a country. However, overall past experiences have proven that such zones can create trade distortions without adding value for economic development. Therefore, benefits and limitations of Free Economic Zones will be discussed in

future meetings of this Working Group which will include a thorough review of their effectiveness. Also, OECD will develop guidelines for proper zone management and compare the impact of FEZ with other zone regimes. Global comparisons indicate a trend away from mere export zones towards Special Economic Zones and cluster initiatives which provide streamlined licensing procedures and other investor and business supporting services as opposed to putting an emphasis mainly on tax incentives.

Furthermore, based on the feedback given by the participants, the initiative will take an overall focus on SME development, e.g. through the development of SME-FDI linkage programmes which intend to increase the overall benefit of foreign investment inflows for local enterprises through a structured approach that helps SMEs to integrate into regional and global value chains.

Figure 1: FDI Performance and Potential in Central Asian countries is not yet fully tapped

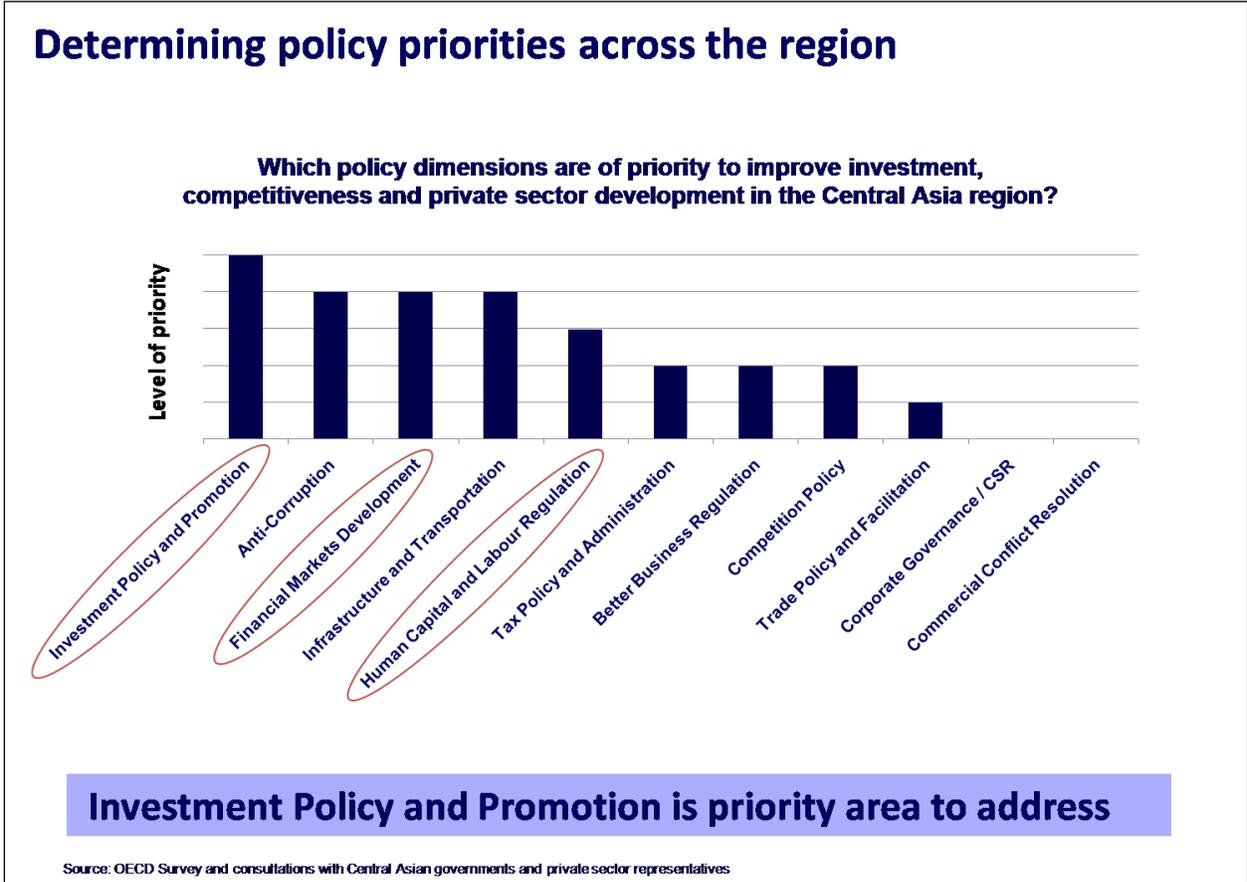


As a next step, a thorough assessment of Policies for Competitiveness (Pfc) expanding on the OECD’s *Policy Framework for Investment* (PFI) will be conducted by the OECD Secretariat to identify policy priorities and to develop a comparative overview of where the countries stand relative to each other and to international best practices.

The proposed work agenda will be adjusted based on the results given in this assessment:

- 1 | Developing **Guidelines for Free Economic Zones** Management
- 2 | Setting-up **SME-FDI Linkage** Programmes
- 3 | Developing an **Investment Promotion Strategy**; taking a policy/sector-approach; including guidelines for the institutional set-up of One-Stop-Shops
- 4 | Building an **FDI Restrictiveness** Index

Figure 2: Investment Policy and Promotion is a priority area to address in the course of the Initiative



## II. Country statements

*Afghanistan* mentioned 5 policy priorities for Investment Promotion which are of strategic importance for the government: (i) to increase transit between South East Asian and MENA countries through the reconstruction of ports and infrastructure for trade facilitation, (ii) to reform the licensing system in order to reduce informality in the private sector, (iii) to develop value-added processing to become more competitive through the establishment of FEZ and free economic ports, (iv) institutional reform and a new generation of investment and business laws for which technical assistance and trainings are required.

For *Kazakhstan*, a main focus lies on the diversification of FDI inflows. So far, FDI flows are mainly concentrated in the energy sector but not in processing industries. A reorientation of investment flows into other sectors would help to enhance the overall productivity of the economy. To achieve this objective, the government rates it more important in times of crisis than ever to show specific benefits to investors and to focus investment promotion efforts on key sectors, such as Agriculture, Construction, Transport, Chemistry, Pharmaceuticals, Electric power generation and green energy.

For the *Kyrgyz Republic*, a general focus on Investment Policy and Investment Promotion is of highest priority. The Ministry of Economic Development and Trade is currently creating an Investment Promotion Agency to attract more foreign investment into the country. Improved investment conditions already led to a 14.5 % increase of FDI inflows in 2008, however, economic forecasts predict a large drop in 2009. The development of a comprehensive legal framework for investment is currently on the reform agenda and shall help alleviate the impact of the crisis on the country.

The Kyrgyz Republic succeeded in simplifying administrative barriers through the establishment of a One Stop Shop. A first evaluation of its effectiveness revealed positive results. However, the One Stop Shop system does not yet provide all licenses required, e.g. it does not issue construction permits. Further improvements in the system are urgently required, both for local and foreign businesses, not only to attract more investors into the country but to retain current investment levels. Many SMEs left the country in 2005 due to unfavourable business conditions. A simplification of procedures would also help to reduce corruption in the public administration which is a major constraint for private sector development.

*Mongolia* adopted a law on foreign investment in 1993 which helped to attract constant investment inflows into the country for 16 years. By law, foreign investors enjoy the same rights and opportunities as local businesses. Mongolia has the lowest tax system of Asian countries with corporate income tax rates between 10% and 25%. Doing Business 2009 rated the country No. 58 stating overall good business conditions. However, the economy has been hit hard by the global economic crisis. Especially the banking system faces severe difficulties in providing enough credit for booming sectors such as construction.

The country is currently implementing a new law on FEZ. Three zones already exist, each one with its own legal regime, while a fourth zone (logistics centre) at the border with China is currently being established. The government is also planning to build a zone at the border with Russia. The country urgently needs foreign investments to develop its infrastructure to enhance the countries competitiveness. A strategic priority is the development of the agricultural sector, with a focus on meat exports taking advantage from a current stock of 50 mio. cattle. A government organisation dedicated to investment promotion and facilitation (FIFTA) is offering its services to investors, however, the main issue at the moment seems to be a lack of profitable investment opportunities in the country (in sectors other than mining).

As in most other Central Asian countries, *Tajikistan's* economic development has been impacted by the crisis. A decrease in global demand and dropping prices of main export commodities from Tajikistan such as aluminium and cotton led to a decline in production and revenues. Foreign exports decreased by 31%, the national currency depreciated by 9.9%, GDP growth is expected to drop to 3.1% in 2009 and remittances decreased by more than 35%. This also led to a decrease in local consumer demand and a decline of imports by 23%. All sectors of the economy are negatively impacted and the government is trying to counterbalance with an anti-crisis plan and urgency measures to ensure macro-economic stability.

The government is committed to attract foreign investment for more employment opportunities and growth. Even though the level of poverty decreased from 83% of the population in 1991 to 53% in 2008 the number of people living in poverty remains very high. Increased FDI inflows are expected to create 500,000 new jobs. Plans for setting up two more FEZs in addition to the two existing ones are currently underway to foster investment projects with an estimated USD 1.7 bio. total amount of investment in priority sectors, such as energy, transportation, communication, agriculture. Tajikistan's foreign trade regime is relatively liberal. A new tax code provides tax exemptions depending on the total amount of investment. Treasury and banking system have been improved and more than 10,000 state-owned companies have been privatized. Foreign companies enjoy equal treatment in the privatization process. More than 70% of the population live in villages. Agricultural development is key to ensure sustained economic growth. Efficient use of land and water resources will be essential to ensure the improvement of agricultural production.

The Tajik Chamber of Commerce just released an updated addition of its business guide for foreign investors which presents a comprehensive overview of investment conditions and opportunities. Furthermore, the Chamber is active in arranging fairs, exhibitions, business forums as well as workshop and trainings for local enterprises.

The first meeting of this Working Group is scheduled to take place in March 2010.

All meeting documentation is available online: [www.oecd.org/daf/psd/eurasia](http://www.oecd.org/daf/psd/eurasia)

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